

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 L-03 H-02 AGRE-00 IGA-02 NEA-10 PA-02
PRS-01 INT-05 EUR-12 OES-07 IO-14 DOE-11 SOE-02
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FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 6839

UNCLAS SECTION 1 OF 2 ADDIS ABABA 0133

E.O. 11652: N/A
TAGS: EINV, EIND, EFIN, ET
SUBJECT: ETHIOPIA: CURRENT INVESTMENT CLIMATE

REF: 77 STATE 244738

SUMMARY: THE CURRENT INVESTMENT CLIMATE IN ETHIOPIA
IS NOT CONDUCIVE TO FOREIGN INVESTMENT. THIS SITUATION
IS NOT LIKELY TO ALTER AS LONG AS THE ETHIOPIAN
GOVERNMENT (EPMG) ESPOUSES SOCIALIST PRINCIPLES.
END SUMMARY.

1. GENERAL GOVERNMENT ATTITUDE. WHILE THE EPMG
HAS NOT PUBLISHED A CLEARLY DEFINED COMPREHENSIVE
POLICY STATEMENT, REGARDING FOREIGN INVESTMENT IN
ETHIOPIA, IT IS CLEAR THAT THE GENERAL VIEW OF THE
GOVERNMENT TOWARD PRIVATE INVESTMENT IS ONE OF
HOSTILITY. THERE ARE NO KNOWN BILATERAL TREATIES OF
INVESTMENT.

2. ECONOMIC FACTORS. THE ECONOMY OF ETHIOPIA IS
PRIMARILY AGRICULTURE; MANUFACTURING CONTRIBUTES ONLY
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ABOUT 5 PERCENT OF THE GNP. COFFEE IS THE MAIN
FOREIGN EXCHANGE EARNER (55 PERCENT). THERE IS A
BASIC LACK OF INFRASTRUCTURE IN THE COUNTRY. THERE
IS A PARTICULAR NEED FOR ROAD DEVELOPMENT, A COSTLY
UNDERTAKING IN VIEW OF THE RUGGED TERRAIN INVOLVED.
POTENTIALLY THE COUNTRY COULD BE A MAJOR EXPORTER OF LIVE-
STOCK, GRAIN, VEGETABLES, FRUIT, AND OTHER AGRICULTURAL

PRODUCTS (MANY ETHIOPIAN CONSIDER THEIR COUNTRY AS THE POTENTIAL BREADBASKET FOR THE MIDDLE-EAST). LITTLE OF THE HYDROELECTRIC CAPACITY OF THE COUNTRY HAS BEEN TAPPED. WHILE THE MINERAL POTENTIAL OF THE COUNTRY HAS NOT BEEN FIRMLY ESTABLISHED, IT IS BELIEVED TO BE VERY GOOD. AT PRESENT ONLY A FEW SMALL GOLD AND PLATINUM MINES ARE BEING WORKED. THE MILITARY CONFLICT NOW BEING FOUGHT WITH SOMALIA HAS FOR THE MOMENT RELEGATED ECONOMIC DEVELOPMENT TO THE BACK SEAT. THE LONG RUN POTENTIAL IS ENCOURAGING, BUT THE REALIZATION DEPENDS TO A LARGE DEGREE ON THE ECONOMIC SYSTEM TO BE FOLLOWED.

3. FINANCIAL INCENTIVES AND DISINCENTIVES. FULL REPATRIATION OF REGISTERED CAPITAL INVESTMENT AND THE REPATRIATION OF A REASONABLE SHARE OF PROFITS HAVE BEEN ALLOWED IN THE PAST, BUT THERE ARE RECENT INDICATIONS THAT THIS PRACTICE WILL BE DISCONTINUED. SOME NEW EQUIPMENT AND MACHINERY IS CURRENTLY BEING IMPORTED FREE OF DUTY, BUT ADDITIONAL IMPORT RESTRICTIONS REPORTEDLY ARE UNDER CONSIDERATION ON NON-ESSENTIAL ITEMS. ALL FINANCIAL INSTITUTIONS ARE IN THE HANDS OF THE GOVERNMENT AND SUBJECT TO CENTRAL AUTHORITY, WHOSE POLICIES ARE BASED ON THE CONCEPT OF "MORE SOCIAL JUSTICE FOR THE MASSES." PRIOR TO 1974 THERE WAS A GOVERNMENT INVESTMENT COMMITTEE
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WHICH EXAMINED INVESTMENT PROPOSALS AND MADE A DETERMINATION ON A CASE TO CASE BASIS. THIS WAS DISSOLVED SUBSEQUENT TO THE REVOLUTION AND NOTHING HAS BEEN ESTABLISHED TO APPROXIMATE ITS FUNCTION, AN INDICATION OF THE EPMG'S LACK OF INTEREST IN FOREIGN INVESTMENT.

4. DEVELOPMENT POLICY. THE NATIONAL DEMOCRATIC REVOLUTIONARY PROGRAM ANNOUNCED IN MARCH 1975 CALLS FOR A TRANSITIONAL PERIOD IN WHICH THE FOUNDATION OF SOCIALISM WILL BE LAID. DURING THIS PERIOD THE GOVERNMENT IS TO INSURE THAT PRIORITY IS GIVEN, IN ORDER, TO AGRICULTURE, SMALL INDUSTRY, AND HEAVY INDUSTRY. FOR POLITICAL AND SOCIAL REASONS THE EPMG HAS NOT LEFT THIS TASK TO THE PRIVATE SECTOR. IT IS BEING DONE BY GOVERNMENT THROUGH THE NATIONALIZATION OF EXISTING FIRMS AND THE ESTABLISHMENT OF OTHER PUBLIC ENTERPRISES WHICH COMPETE WITH THOSE PRIVATE FIRMS STILL IN EXISTANCE. DEFICIT FINANCING IS THE ANNOUNCED POLICY TO BE FOLLOWED BY THE GOVERNMENT IN PROMOTING CAPITAL DEVELOPMENT PROJECTS. UNDER THIS POLICY, EMPHASIS IS TO BE PLACED ON AGRICULTURE,

RURAL ROADS, EDUCATION AND HEALTH. TOURISM IS
DISCOURAGED.

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FM AMEMBASSY ADDIS ABABA
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THE IMPORTATION OF LUXURY ITEMS AND NON-ESSENTIALS
HAS BEEN DISCOURAGED BY INCREASED DUTIES (MAY 1977).
ACCORDING TO GOVERNMENT ANNOUNCEMENT, THIS HAS BEEN
DONE TO BRING "SOCIAL JUSTICE TO THE MASSES", RATHER
THAN TO CONSERVE FOREIGN EXCHANGE FOR MORE DEVELOPMENT
ORIENTED PRODUCTS.

THE EPMG HAS NO DEVELOPMENT PLAN PER SE, ALTHOUGH
EAST GERMAN ADVISORS ARE NOW ASSISTING THE PLANNING
COMMISSION IN DEVELOPING A MORE UNIFIED AND
COMPREHENSIVE PROGRAM.

5. LABOR FACTORS. 85 PER CENT OF THE LABOR FORCE IS ENGAGED
IN AGRICULTURE. THERE IS A SEVERE SHORTAGE OF
COMPETENT MANAGEMENT LEVEL PERSONNEL, AS WELL AS A
KEENLY FELT SHORTAGE OF SKILLED TECHNICAL WORKERS.
THE WAGE RATES FOR THE LOWEST PAID WORKERS HAVE
INCREASED SUBSTANTIALLY SINCE THE REVOLUTION, BUT
PRODUCTIVITY HAS NOT. WORKERS COMMITTEES AND PEASANTS
ASSOCIATIONS HAVE BEEN ESTABLISHED AND ASURP MANY
MANAGEMENT RESPONSIBILITIES, OFTEN TO THE DETRIMENT
OF PRODUCTIVITY. ADDING TO THE DECLINE IN PRODUCTIVITY
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IS AN UNENDING PROCESSION OF POLITICAL MEETINGS, INVARIABLY HELD ON COMPANY TIME. ABSENTEEISM IS ALSO UP DUE TO THE REQUIREMENT TO ATTEND FREQUENT URBAN NEIGHBORHOOD ASSOCIATION MEETINGS, AND TO ATTENDANCE OF THE FUNERALS OF MANY RELATIVES AND FRIENDS.

6. OWNERSHIP POLICY AND INVESTMENT DISPUTES. ONCE THE REVOLUTION TURNED TOWARD RADICAL SOCIALISM FOR ITS IDEOLOGICAL GUIDELINES IN CHANGING THE SOCIAL STRUCTURE, IT WAS INEVITABLE THAT PRIVATE INVESTMENT WOULD BECOME AN EARLY VICTIM. IN AN ECONOMIC POLICY DECLARATION ISSUED ON FEBRUARY 7, 1975, THE EPMG STATED THAT THERE MUST BE AT LEAST 51 PER CENT GOVERNMENT OWNERSHIP IN ALL MAJOR VENTURES TO BE ESTABLISHED, EXCLUDING THE EXPLORATION AND EXPLOITATION OF MINERAL RESOURCES. (NOTE: IN DECEMBER 1975, THE FOREIGN OIL DISTRIBUTION COMPANIES IN ETHIOPIA WERE TOLD THAT THEY WERE SPECIFICALLY EXEMPTED FROM NATIONALIZATION.)

ON MARCH 11, 1975, THE EPMG ISSUED ITS NATIONAL DEMOCRATIC REVOLUTIONARY PROGRAM, UNDER WHICH ALL AGRICULTURAL AND URBAN LAND, AND ALMOST ALL MODERN INDUSTRIAL CONCERNS, BECAME OUTRIGHT THE PROPERTY OF THE GOVERNMENT.

A COMPENSATION COMMISSION WAS ESTABLISHED IN FEBRUARY 1976 TO HANDLE ALL CLAIMS, DOMESTIC AND FOREIGN, WHICH AROSE FROM THE EPMG'S NATIONALIZATION PROGRAM. TO DATE, CLAIMS SUBMITTED TO THE COMMISSION ARE STILL UNDER INVESTIGATION; IN NO KNOWN INSTANCE HAS COMPENSATION ACTUALLY BEEN MADE. THE FACT THAT THERE HAS BEEN NO GOVERNMENT ANNOUNCEMENT OF EXACTLY WHAT PERCENTAGE EACH

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FIRM HAS BEEN NATIONALIZED, HAS COMPLICATED THE COMPENSATION PROCESS. IN THE DAY TO DAY OPERATION OF THE FIRMS DESIGNATED AS NATIONALIZED, THE EPMG HAS EXERCISED FULL CONTROL AT THE BOARD LEVEL, AND OFTEN HAS DESIGNATED THE PERSON TO CONDUCT DAY-TO-DAY OPERATIONS. IN MOST CASES, THERE IS ALSO WORKER PARTICIPATION IN MANAGEMENT DECISIONS.

THERE ARE SOME 27 U.S. FIRMS AND/OR INDIVIDUALS AFFECTED BY NATIONALIZATION. AS MENTIONED, THE ACTUAL PERCENTAGE NATIONALIZED (TO BE TAKEN OVER BY THE EPMG) HAS YET TO BE DETERMINED; DESPITE THE NATIONALIZATION

PLAN, A NUMBER OF U.S. FIRMS (GENERALLY OF A MULTI-NATIONAL NATURE) HAVE OPTED TO ASSIST AND COOPERATE WITH THE GOVERNMENT IN ORDER TO MAINTAIN A PRESENCE IN ETHIOPIA, HOWEVER SMALL. THEY HAVE INDICATED A DESIRE TO BE ON THE SCENE IN ONE OF AFRICA'S MOST DENSELY POPULATED COUNTRIES (ESTIMATED ROUGHLY AT 28 MILLION) SHOULD THE BUSINESS CLIMATE IMPROVE.

7. STATUS OF OPIC PROGRAM. THERE ARE TWO U.S. FIRMS IN ETHIOPIA WITH OPIC COVERAGE, KALAMAZOO SPICE EXTRACTION CO. AND CLUETT PEABODY & CO., INC. THE TOTAL AMOUNT INVOLVED IS US\$ 379,200.00.

8. ANALYSIS. THE CURRENT HOSTILITY TO FOREIGN INVESTMENT IS NOT LIKELY TO CHANGE AS LONG AS THE EPMG IS ORIENTED TOWARD RADICAL SOCIALISM.

9. STATISTICAL INFORMATION. EMBASSY HAS BEEN UNABLE TO OBTAIN FROM THE EPMG OFFICIAL INFORMATION REGARDING FOREIGN INVESTMENT IN ETHIOPIA. UNOFFICIAL SOURCES ESTIMATE THAT IN JANUARY, 1975, US INVESTMENT IN ETHIOPIA WAS US\$ 17 TO 20 MILLION; U.K. INVESTMENT WAS US\$ 13.2 MILLION; AND ITALIAN INVESTMENT OVER US\$ 100 MILLION.
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